IMPACT OF FLUCTUATION OF RUPEE VALUE ON TRADE WITH SPECIAL REFERENCE TO FLOWSERVE COIMBATORE

by

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A PROJECT REPORT
submitted

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of

MASTER OF BUSINESS ADMINISTRATION

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BONAFIDE CERTIFICATE

Certified that this project report titled "**Impact Of Fluctuation Of Rupee Value On Trade With Special Reference To Flowserve Coimbatore** " is the bonafide work of **Mr.Vigneshwaran A M, Reg no: 1120400101** who carried out the project under my supervision. Certified further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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DECLARATION

I affirm that the project work titled **"Impact Of Fluctuation Of Rupee Value On Trade With Special Reference To Flowserve, Coimbatore "**being submitted in partial fulfillment for the award of Master of Business Administration is the original work carried out by me. It has not found the party other project work submitted for award of any degree or diploma, either in this or any other university.

Signature of the Candidate

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I certify that the declaration made above by the candidate is true.

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SYNOPSIS

Flowserve Corporation Pvt Ltd is one among the leading pump, valve and seals etc. manufacturing company. The company is a leading pump manufacturer in several countries. In recent trend there is a serious fluctuation of rupee value and this project will research and find out whether there is an impact on trade due to the fluctuation of rupee value. The company has been successful with their domestic and exports and now tries to increase the proportion of export for which they need to know whether the currency fluctuation will be a profitable one or not and if so then against which currency it can make more profit.

The research also predicts the trend of rupee against other currencies and also finds the most influential currency on the trade. The performance of Indian currency against various currencies during the study period.

CHAPTER -1

INTRODUCTION

1.1 ABOUT THE STUDY

The value of Rupee based on the transaction happened in India against all global activities. Since global activities are mostly done in Euro & Dollar, the effect of up & down payment in Euro & Dollar directly affects Indian Rupee. It is not so easy to fix up the rate of Indian Rupee with Euro or Dollar since the control on the global cues and local activities is not in anybody's hand. The only thing one can do is to plan the things or activities accordingly so as to avoid the severe effect on the currency in India.

Indian Rupee value appreciates or depreciates based on overall global economical activities including India's Export, Import, RBI's foreign currency exchange records, cash reserves, other gold reserves and overall stock etc.

INDIA in 1970's &1980's

Until the 70s and 80s India aimed at to be self-reliant by concentrating more on imports and allowing very little exports to cover import costs. However, this could not last long because the oil price rise in the 1970s and 80s created a big gap in India's balance of payment. Balance of payment (BOP) of any country is the balance resulting from the flow of payments/receipts between an individual country and all other countries as a result of import/exports happening between an individual country, in our case India and rest of the world. This gap widened during Iraq's attempt to take over Kuwait. Thereafter, exports also contributed to FX reserve along with Foreign Direct Investment into the Indian economy and reduced the BOP gap

Indian rupee appreciation against dollar impacted heavily to the following

1. Exporters
2. Importers
3. Foreign investors

Exports from India are of handicrafts, gems, jewellery, textiles, ready-made garments, industrial machinery, leather products, chemicals and related products. Since the 1990s, India is the world's largest processor of diamonds. The mentioned export items contribute substantially to foreign receipts. During the periods when the dollar was moving high against the rupee, exporters stood to gain, when $1 = Rs. 48, was getting them Rs. 4800 for every $100. Since the beginning of the year 2007, rupee appreciated by about 10%. With its value of rupee Rs. 39.35 = $1 as on 16 Nov 2007, for every $100, exporters would get only Rs. 3935. This difference is towing away the profit margins of exporters and BPO service providers alike.

Imports to India are of petroleum products, capital goods, chemicals, dyes, plastics, pharmaceuticals, iron and steel, uncut precious stones, fertilizers, pulp paper etc. With the same scenario as given for export, if we analyze - an importer is paying Rs. 3935 now instead of Rs. 4800 paid during yester years for every $100. This gain on FX is likely to create savings in cost, which could be passed on to consumers, thereby contributing to control inflation

Foreign investment into India is also contributing well to dollar depreciation against dollar. With the recent liberalized norms on foreign investment policy like – Foreign investment of up to 51% equity limit in high priority industries; foreigners & NRIs are allowed to repatriate their profits and capital with exception for Indian nationals who were allowed to do so only under special circumstances; allowing free usage of export earnings to exporters, made foreign investment in India very attractive. It is this favourable atmosphere which made FX reserve surplus in US dollar and helped rupee to appreciate

Conclusively, appreciation and depreciation of rupee cannot certainly be taken as beneficial to the Indian economy in general. On one hand the rupee appreciation will affect exporters, BPOs, etc., on the other, rupee depreciation will affect importers. So now it depends on what the future has to reveal for, how effectively the central bank can balance the FX rates with little impact to the relative areas of FX usage. Can the Dollar remain king or not, is no longer a million dollar question, but a million Rupee question Fluctuation of Rupee value,

Rise in Oil prices and sluggish Growth rate. Indian rupee recently depreciated to a new record low against US dollar, the rupee depreciation brings about a large change in economy. The fluctuations in Indian currency resulted in huge setback to Importers and Foreign Investors and good news for exporters. As rupee depreciates, the basic impact of it is noticed and felt on Import bill, Fiscal Slippage, Cost of Borrowing. Indian currency Exchange rate is based on domestic market conditions.

The main reason for the current Indian rupee depreciation

It is fundamentally because of the on-going European crisis linked with crisis in domestic economy. Due to the current crisis in Europe, big banks, investors and financial institutions started selling euro and bought dollar, thus dollar appreciated against all major currencies including rupee. Domestic economy adds fuel to this crisis due to stagnant economic reforms and increasing current and fiscal deficits to the economy.

Impact on Growth rate of India

In the last few weeks, the fall in Indian Rupee against the US dollar disappointed not only Indian Economy but also many importer and foreign investors. The fluctuation in the rupee affects the share market also, due to which foreign investors stay away from Indian Stocks. The Indian rupee was under attack when it touched a record low of 56.22 to the US dollar. The Indian rupee has shed 24 per cent value over the past 9 months. The Indian currency fell more than 27 per cent against the dollar. Such violation in currency creates huge obstacles for the economy. The GDP growth rate computes the rise in financial worth of the goods and services which is generated by an economy. Indian economy is considered as one of the fastest growing world economy. The depreciation of Indian rupee has affected the growth of Indian economy. The GDP growth of India has reduced to 6.5% for the full fiscal. The reason behind such growth is India's drowsing fiscal deficit, inflation and high interest rates. The GDP growth was high between 2003 and 2007 i.e. 9% which was driven by private investment. As GDP of the economy does not grow, as a

result foreign investors are also not attracted towards it. Because such conditions give rise to high volatile investing condition which are highly risky for investors. Thus foreign investors avoid investments due to highly risky conditions which would end up in loss.

Negative Impact on Indian Economy

The depreciation of Indian rupee leads to high Inflation and has great impact on imports, as India imports about 80% of its crude oil and the payment of these imports will be in terms of Indian currency. If rupee still continues to fall, then oil companies will be compelled to increase the fuel prices in order to compensate their loss. Thus the price of crude oil rises and making it much costlier which means importers will have to shed more to import same quantity of Crude Oil. This means higher the imports will result increase in fiscal deficit and would give rise to inflation, which is already a big problem for the Government. As India is under tremendous pressure of inflation and depreciation of Indian rupee makes it more difficult for Indian economy to grow. The higher import bills give rise to fiscal deficit and generate more problems for the Government. India imports products such as petroleum products, capital goods, chemicals, dyes, plastics, pharmaceuticals, iron and steel, uncut precious stones, fertilizers, pulp paper etc. Thus the price of these commodities rises as rupee falls. India will also have to make more payment in terms of rupee for obtaining their raw materials, in spite of drop in prices of global commodity due to depreciating of rupee against dollar. Oil companies already have noted the descent in the value of Indian rupee against the dollar which led them to increase prices of petrol. Not only oil but all other products and commodities are also very costly to import.

Who is gaining from this?

Depreciation of Indian rupee makes exports cheaper, which is a beneficial for Industries like IT, textiles, hotels and tourism through which they generate their income mainly from exporting their products or services. IT sector in India is under the influence of foreign clients through which IT companies earn most of their income and revenue. The tenure of the contract and cost of the project is

decided in advance when an IT company receives a project from the client which is mostly priced in US dollar.

The Impact of weak currency and rising Oil prices on Common Man

The impact of such weak rupee is that it affects not only every sector but also Individuals in the country. Everything becomes costly, since our economy runs on oil so increase in oil prices raises price of every necessary thing, started from travelling to food items to, steel prices, everything that runs on oil. Inflation will reach another height and so is cost of living. Travelling abroad becomes very costly which includes travelling expense, hotel expense, etc. can hike up by 15%. Students studying abroad for higher education are also affected as they have to pay more course fees, travelling, accommodation, etc. Imported electronic items and services also become expensive.

Concept of Fluctuation of Indian Rupee Value

Indian Rupee value appreciates or depreciates based on overall global economic activities including India's Export, Import, RBI's foreign currency exchange records, cash reserves, other gold reserves and overall stock etc.

Concept of Appreciation of Rupee Value

Indian Rupee value is said to be appreciated with respect to the time period against other currency when the number of rupees to be paid for one unit of foreign currency decreases.

Eg Jan – 2012   1USD = 51.00 INR

    Feb - 2012   1USD = 49.1811 INR

Concept of Depreciation of Rupee Value

Indian Rupee value is said to be depreciated with respect to the time period against other currency when the number of rupees to be paid for one unit of foreign currency increases.

Eg Aug – 2011   1USD = 45.91 INR

Sept - 2011   1USD = 47.628 INR

1.2 ABOUT THE ORGANISATION

The name of the organization is Flowserve Corporation and it's a Public company and listed in New York Stock Exchange (NYSE FLS).The company is into the Diversified Machinery and manufactures various machineries for the industries. The Company was founded in 1997 and the organization's headquarters is located at Irving, Texas , USA

Flowserve At a Glance

Customer expectations in the design, delivery and support of integrated flow management requirements is something we strive for daily. Learn more about the Flowserve vision and mission and what defines Flowserve.

History

Flowserve has evolved through organic growth and strategic acquisitions. Flowserve has evolved through organic growth and strategic acquisitions. The company was created in 1997 with the merger of two leading fluid motion and control companies – BW/IP and Durco International. Flowserve heritage dates back to the **1790** founding of **Simpson & Thompson**, later to become Worthington Simpson Pumps, one of the companies that became part of BW/IP. The most recent additions to the Flowserve family include Invensys Flow Control in 2002, Thompsons Kelly & Lewis in 2004 and Interseal in 2005.Flowserve comprises over 48 fluid motion and control products. They are in alphabetical order ACEC Centrifugal, Accord, Aldrich, Anchor Darling, Argus, Atomac, Automax, BW Seals, Byron Jackson, Cameron, DuraClear, Durametallic, Durco, Edward, Five Star Seals, Flowserve, Gestra, IDP, Interseal, Jeumont-Schneider, Kammer, Limitorque, Logix, McCANNA/MARPAC, NAF, NAVAL, Noble Alloy, Norbro, Nordstrom, PMV, Pac-Seal, Pacific, Pacific Wietz, Pleuger, Polyvalve, Schmidt Armaturen, Scienco, SerckAudco, Sier-Bath Rotary, TKL, United Centrifugal, Valtek, Valtek

EMA, Vogt, Western Land Roller, Wilson-Snyder, Worcester Controls, Worthington.

Growth of Flowserve

Flowserve has grown through mergers and acquisitions.

- Acquisitions under Flowserve Corporation

  ❖ 1997 - Merger of BW/IP and Durco International (Formation of brand name Flowserve)
  ❖ 1997 - Stork Engineered Pumps
  ❖ 2000 - Ingersoll-Dresser Pumps (IDP)
  ❖ 2000 - Invatec
  ❖ 2000 - Ecoon
  ❖ 2002 - Invensys Flow Control
  ❖ 2004 - Thompsons Kelly & Lewis (TKL)
  ❖ 2005 - Interseal
  ❖ 2006 – Hydro Technik
  ❖ 2007 - MF Sealing Systems
  ❖ 2009 - Calder AG
  ❖ 2010 - ValbartSrl
  ❖ 2011 - Lawrence Pumps Inc

Organisational Structure

Key People

  ❖ Mark A.Blinn, President and CEO; Vice Chairman of the Board
  ❖ Andrew J Beall, Vice President ;President, Flow Solution Division
  ❖ Thomas L. Pajonas, Vice President; President, Flow Control Division

- ❖ Thomas E Ferguson, Vice President; President, Flow Pump Division
- ❖ Ronald F Shuff. Senior Vice President, Secretary and General Counsel

Sales Turnover and Profit of Last Year

Revenue

$4,510 million USD

Net Income

$ 618.7 million USD

Awards

- ❖ Flowserve Earns "America's Safest Company" Award, Highlights Successful Sustainability Program
- ❖ Flowserve receives a 2010 "America's Safest Company" award from EHS Today magazine.
- ❖ Flowserve Receives Frost & Sullivan World Customer Value Enhancement of the Year Award
- ❖ Flowserve is honoured by Frost & Sullivan with its 2010 World Customer Value Enhancement of the Year Award in value-added services for valves and centrifugal pumps.
- ❖ Honouring the Most Innovative Fluid Handling Technologies
- ❖ ISC2 Innovation Award 2010 Flow Control Award Winner
- ❖ Flowserve Honoured by Forbes and Fortune
- ❖ Flowserve is named to Forbes magazine's list of The 100 Most Trustworthy Companies and, for the first time, the Fortune 500 list of America's largest companies.
- ❖ Flowserve Earns Customer Service Leadership of the Year Award
- ❖ Flowserve Pump Division is honoured by Frost & Sullivan for the second time in 2009.

Products and Services Offered

Products

- ❖ Actuators
- ❖ Ball valves
- ❖ Butterfly valves
- ❖ Control valves
- ❖ Plug valves
- ❖ Mechanical valves
- ❖ Pumps

Services

- ❖ Power Industry
- ❖ Oil Industry
- ❖ Gas Industry
- ❖ Chemical industry

Achievements and Milestones

The Flowserve Pump Division (FPD) facility in Chesapeake, Va., recently celebrated its achievement of surpassing the industry safety milestone of one million hours without a lost workday accident. The celebration included a town hall meeting followed by a plant tour and a clambake.

FPD president Tom Ferguson states, "The entire management team at FPD is committed to increasing the already considerable focus on our safety efforts. A million safe hours is built by many small actions, minute by minute, by individuals who believe in Flowserve's cultural commitment to safety excellence. We're very proud of the management team and employees of Chesapeake and this remarkable accomplishment."

The last lost workday accident at Chesapeake occurred April 4, 2001. From that time until achieving the one million work hours mark, the employees at Chesapeake worked 30 consecutive months without a lost time accident. This

achievement translates into over 750 days of continuous operation with an average employment of 210 people on site. In addition, during that period, Flowserve Chesapeake reduced minor accidents by nearly 60 percent.

Future Plans

This news release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbour provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as, "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, earnings forecasts, statements relating to our business strategy and statements of expectations, beliefs, future plans and strategies and anticipated developments concerning our industry, business, operations and financial performance and condition.

The forward-looking statements included in this news release are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements, and include, without limitation, the following a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins; changes in the global financial markets and the availability of capital and the potential for unexpected cancellations or delays of customer orders in our reported backlog; our dependence on our customers' ability to make required capital investment and maintenance expenditures; risks associated with cost overruns on fixed-fee projects and in taking customer orders for large complex custom engineered products; the substantial dependence of our sales on the success of the oil and gas, chemical, power generation and water management industries; the adverse impact of volatile

raw materials prices on our products and operating margins; our ability to execute and realize the expected financial benefits from our strategic realignment initiatives; economic, political and other risks associated with our international operations, including military actions or trade embargoes that could affect customer markets, particularly Middle Eastern markets and global oil and gas producers, and non-compliance with U.S. export/re-export control, foreign corrupt practice laws, economic sanctions and import laws and regulations; our exposure to fluctuations in foreign currency exchange rates, particularly in hyperinflationary countries such as Venezuela; our furnishing of products and services to nuclear power plant facilities and other critical processes; potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims; expectations regarding acquisitions and the integration of acquired businesses; our foreign subsidiaries autonomously conducting limited business operations and sales in certain countries identified by the U.S. State Department as state sponsors of terrorism; our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits; the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets; our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations; the highly competitive nature of the markets in which we operate; environmental compliance costs and liabilities; potential work stoppages and other labour matters; our inability to protect our intellectual property in the U.S., as well as in foreign countries; obligations under our defined benefit pension plans; access to public and private sources of debt financing; and other factors described from time to time in our filings with the Securities and Exchange Commission.

Experience in Motion

We use the phrase Experience in Motion to convey who we are - a company with the knowledge and confidence that comes from years of experience as a global leader. In the most basic sense, Flowserve has, and is, Experience In Motion.

Culture

Flowserve culture is centred around our commitment to serve customers locally and ensure that the products and services they order are delivered on time and as promised.

Trade Compliance

The Flowserve Trade Compliance provides detailed information on the export and import control status of Flowserve products.

Flowserve associates worldwide are unified by six core values Commitment, Creativity, Character, Collaboration, Confidence and Competence.

Mission

Flowserve moves, controls and protects the flow of materials in some of the world's most critical industries to help customers exceed their business goals and ultimately deliver increased value to our shareholders.

Vision

The Flowserve vision is to distinguish ourselves to our customers by delivering integrated flow management solutions as a global, unified, customer-centric business.

Values

The Flowserve brand is supported by the six core values to create a consistent Flowserve Customer Experience.

- **Commitment** - A promise is a promise; execute reliably for our customers
- **Creativity** - Think beyond boundaries; embrace change and new ways of thinking
- **Character** - Live the Flowserve Code of Business Conduct; stand up for what is right
- **Collaboration** - The right people working together; use our portfolio of possibilities
- **Confidence** - Take productive risks; act with self-confidence and demonstrate managerial courage
- **Competence** - Add value en everything we do; be seen as a trusted advisor

Employees

The total employees in the organisation are 16,380 in 56 Countries.

1.3 STATEMENT OF PROBLEM

The organization's export contributes 25% and domestic market contributes 75% of the organization's sales. The organization wants to figure out whether the exports can be increased and if so, then what would be the impact of the fluctuation of rupee value against other foreign currencies. The organization wants to identify their domestic and foreign demand and also want to measure their demand – supply gap. To identify all the above details the research is carried out.

1.4 OBJECTIVES OF THE STUDY

1.4.1 PRIMARY OBJECTIVE

- To study the impact of fluctuation of rupee value on the imports and exports of with special reference to Flowserve.

1.4.2 SECONDARY OBJECTIVES

- To identity the foreign currency which has more impact on the organization's imports and exports.

- To understand whether the company have benefited or lost due to the currency fluctuations.

- To study the performance of Indian currency against other foreign currencies during the study period.

- Forecasting the future value of Indian rupee against other foreign currencies like USD, Japanese YEN, EURO, Chinese Yuan Renminbi CNY.

1.5 SCOPE OF STUDY

The research study is carried out based on pump manufacturing industry. The research can be carried out in various other industries. Though the research is done for a shorter period it can be extended to a longer time horizon. The scope can be widened by including other factors which can

influence a trade in an organisation. This research can be generalised to look out for the impact of fluctuation of rupee value on Indian Economy. In this research the only few currencies were considered which in turn also can be extended to further more currencies like pounds, Australian Dollar, etc.

1.6 LIMITATIONS OF THE STUDY

❖ Data collected from the organisation (Flowserve), that can be subjected to changes.

❖ Confined to the organisation (Flowserve)alone for time-being.

❖ Changes done after the study period are not included.

❖ Most of the data are secondary and few of which are unreliable and the research is done on a riskier data.

❖ Only Sales and Fluctuation of Rupee value alone considered , neglected several factors which can make an impact on trade.

❖ Only few currencies are considered during the research study.

CHAPTER - 2

REVIEW OF LITERATURE

Literature Survey – From research papers

Shelly Singhal [1] presented a analytical study on currency rupee depreciation against the US Dollar and its Economic Impact. This research paper was designed to identify the reasons behind the depreciation of rupee value in the recent years. This paper compares the balance of payment and foreign Exchange Reserves of various time period and this study gives us more information of the imports and exports of India in the past and present. This Paper furnishes more details about the inflation and also it tries to forecast the depreciation of Indian rupee value against US Dollars in the near future. It helped to identify various reasons for the depreciation of rupee value against US Dollars and for inflation. This paper also suggest some changes in policies and few steps to reduce the impact of depreciation of rupee value against the US Dollars.

Care Ratings Professional Risk Opinion [2] had done a research on impact of depreciation of rupee value on various industries. The main objective of tis research is to identify the vulnerability on the forex exposures, on account of depreciation of the rupee against the dollars, across various industry segment. This research speaks about the incomes and expenditure on their export and import. Based on their imports, exports, income and expenditure the net profit or net loss is calculated. If there is a net profit then the industry is named as gainer or else if they make net loss they are labelled as losers.

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[1] *Shelly Singhal* - AN ANALYTICAL STUDY ON INDIAN CURRENCY RUPEE DEPRECIATION AGAINST THE US DOLLAR AND ITS ECONOMIC IMPACT – 2001 - Arth Prabhand: A Journal of Economics and Management Vol.1 Issue 1, April 2012, ISSN

[2] Care Ratings - RUPEE DEPRECIATION – INDUSTRY IMPACT – 9, January 2012,.

The report analyses various industries with respect to depreciation of rupee value and the major gainers are IT and Textile industries. The Gainers are Two wheelers and commercial vehicles. This research paper speaks about the years when the Indian rupee value got appreciated and depreciated in the past and how the government handled it.

Mehul Raithatha [3] had done good research study on concept of fluctuation of rupee value against the US Dollars. Here is where he speaks about the concept of appreciation and depreciation of rupee value. He also speaks about how the forex came into existence. The main objective of this research to analyse the advantages and disadvantages of the appreciation as well as depreciation of rupee value against the US Dollars and vice-versa. It speaks about the years when the rupee value appreciated and depreciated (2003-2006 and 2011 respectively). It spoke about the evolution of currency trading with the start of Bretton Woods system in 1944.

Mundell,1999 [4] The advent of the euro may turn out to be the most important development in international monetary arrangements since the emergence of the dollar as the dominant currency shortly after the creation of the US central bank, the Federal Reserve System, in 1913(Mundell,1999). The Euro represents an important change in the world economy. At the moment of its inception, the Euro accounted for 19.4% of the world's GDP, compared with 19.6% for the United States. In a treaty signed in Rome on March 24, 1957, six nations of western Europe - France, Germany, Italy, Belgium, Netherlands and Luxembourg agreed to merge their separate economies into one single economic unit by establishing a 'common market' area also known as the "Inner six" arrangement.

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[3] *Mehul Raithatha* - A Conceptual Study On Fluctuation of Rupee in Relation to Dollar - Vol.2 Issue 3, March 2012, ISSN 2249 8826

[4] Dr. Navneet Gera, Prof Som Deo, Dr. Anoop Pandey - Historical Background Of Euro Currency and its Race to Catch US Dollar in International Financial Market - Synergy (Jan, 2011), Vol. IX No. I

This six-country arrangement for the creation of a "common market' area is popularly known as the European common market (ECM) which came into being on January 1, 1958. Custom Union The six countries formed the custom union namely France, Germany, Italy, Belgium, Netherlands and Luxembourg

Paul,2007[5] EEC -European Economic Community Europe's most comprehensive attempt at economic integration was marked by the formation of the European Economic Community (EEC). Economic integration aims at integrating the free flow of good, labor and capital across the borders of countries agreed upon. These countries are allowing the common policies – monetary policy etc. to be accepted from time to time defined and framed by the ECB -European central banks thus forming closer relations between its member nations. To accomplish the objectives, the member states are committed under the Treaty of Rome to Establish a common tariff and commercial policy for the outside countries.   Removal of Custom duties between member countries. Removal of import-export quotas between member countries. Following a common agricultural and transport policy. Coordination of legislation member states for the smooth functioning of the common market. Establishment of a system ensuring competition in the common market.

Mithani,1998 [6] The adoption of procedures for coordination of economic policies of member nations and for remedying their balance of payments disequilibrium. Basic goal in the coordination process includes external balance, full employment and price stability.

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[5] *Adam S. Posen* - Why Euro will not Rival Dollar ?.- International Finance
   11:1,   2008: pp. 75–100
[6] *Mithani,1998*   - How sensitive is commodity trade flows between US and
   India to currency depreciation?

The Impact of EEC The major impact of EEC has been the achievement of large markets and economies of scale. Mobility of labor and capital increase within the community makes it possible to have reallocation of some industries to make advantage of ready access to markets or raw materials and so to reduce transport costs. Common market has direct impact on the economic, social and political issues on the member countries. European Free Trade Area (EFTA). United Kingdom has not joined the European common markets and thus has not opted for the common currency Euro. European Free trade area comprises of seven Countries namely Norway, Sweden, UK, Switzerland, Denmark, Austria and Portugal. The ultimate purpose to form the group was to reduce the tariff among the member countries. (EEC -1992) The European community was formed in the year 1992.

Removal of hindrances of capital movement with the opening up of the financial services such as banking and insurance. Permitting the professionals such as Lawyers, accountants etc. to practice anywhere in EC. Removing the Government procurement obstacles with EC commission. European Monetary System , European countries that were members of the European Economic Community (EEC), concerned by the collapse of the Bretton Woods arrangements, decided in 1979 to enter into an exchange rate arrangement that would regulate movements in their currencies with respect to one another (Michael, 2005).

Michael J. Lambert and Kristin D. Stanton [7] European Union The creation of a true economic union requires integration of economic policies in addition to the free movement of goods, services and factors of production across borders. Under the economic union, members would harmonize monetary policies, taxation and government spending .

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[7] *Michael J. Lambert and Kristin D. Stanton,* Opportunities and Challenges of the U.S. Dollar as an Increasingly Global Currency A Federal Reserve Perspective

The primary focus of the European Union was to create one marketplace throughout the continents of Europe to compete with that of the United States (Riad, 2007).The rationale for Economic and Monetary Union (EMU) was predominantly economic; the deeper rationale for the initiative was profoundly political, aimed at involving all European citizens in the process of European integration. In keeping with the goal of achieving greater monetary integration in Europe, the European Monetary Union came into effect in 1992. The launch of Euro has threatened the American economy in the economical and political ways. The fear of America will prove to be a serious

rival to the Dollar and may turn into reality based on the changing pattern of trade and the global trust for the infant currency Euro. However, the rivalry will be a long term battle in terms of time and changing the economic and political movement across the borders.

ROBERT A. BLECKER [8] The euro is the most visible and tangible illustration of the European Union and is a decisive contribution to rendering the unification process irreversible5 . Since the introduction of euro notes and coins on January 1, 2002 the single currency has become the cornerstone of more than 370 million citizens' daily activities, and has served as the yard stick by which the public measures the progress of the last half-century towards integration. The European Union completed the largest enlargement in its history. This accession of 13 new states raised the total number of members from 15 to 28 and increased the EU population by 20 percent (to over 450 million people). Member States - The European Union currently has 28 member states as on January 2009.

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[8] ROBERT A. BLECKER - The Economic Consequences of Dollar Appreciation for US Manufacturing Investment A Time-Series Analysis - *International Review of Applied Economics, Vol. 21, No. 4, 491–517, September 2007*

Euro is used in the Following Countries - The countries in the European Union that use the euro are Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, The Netherlands, Austria, Portugal, Finland, and Slovenia (Riad et.al., 2007).In the ten years the euro has been in place and it has established itself as a key currency on the international scene and as an alternative to the dollar. The share of the euro in global foreign exchange reserves, in foreign debt securities, and in international cross-border liabilities of international banks, has risen rapidly. Over 50 countries now operate manage exchange-rate arrangements that include the euro as a reference currency, either alone or with their reserve currencies6. These figures reflect the increasing attractiveness of the euro as an international currency. The introduction of the single currency has also had a revolutionary effect on the European financial sector, as a catalyst for European financial integration and restructuring, and for the expansion of European financial markets. According to one Commission study, an integrated European capital market could, in the long run, raise the level of gross domestic product (GDP) in the EU by over 1 percent-a boost these economies could greatly use. For these reasons, the EU is steadfastly committed to the completion of a single market in financial services. The EU's total GDP rose only 5 percent with the addition of these 13 nations.

The Associated Chambers of Commerce and Industry of India [9] had done a research on the Exchange Rates and how they can be calculated and influential. The enlargement process offers unprecedented future economic opportunities for both old and new members, as well as business interests in the United States and elsewhere abroad. This has been well understood by both European and American investors, who have significantly increased their presence in these countries in anticipation of enlargement. By joining the European Union, the acceding countries have also become members of Economic and Monetary Union.

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[9] *The Associated Chambers of Commerce and Industry of India* - Rupee Exchange Depreciation Impact Analysis – January 2012.

By the end of the decade, a number of these new Member States will have successfully replaced their national currencies with the euro. The impact of the euro is being felt deeply and widely, within the Euro area and the EU, but outside Europe's borders as well. The growing international role of the euro, including its profound effect on the business and financial sector, has provoked strong analytic and policy interest on both sides of the Atlantic.

Ponniah Sivarajah [10] The specific objective of the study is to develop a multi-market model for the analysis of alternative policy options to increase exports of coconut products from Sri Lanka. Secondary data on the production and exports of coconut products are used. Simulations indicate that depreciation of the rupee exchange rate has a significant impact on export prices, volume of exports and income of industry stakeholders, but there is no significant impact on the producer prices or producer incomes, and supply of coconut products. Simulations show that export prices of coconut products declined for the rupee exchange rate depreciations in real terms. But in nominal terms, the export prices increased to cause an increase in the exporting firms' income and government tax revenues, and a modest increase in the industry income. Depreciation of the rupee could raise the income of exporters and the government tax revenue, which could be used for investing in development of new technology or factory modernization subsidy schemes.

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[10] *Ponniah Sivarajah* - Impact of Exchange Rate on Export of Coconut Products from Sri Lanka

CHAPTER – 3

RESEARCH METHODOLOGY

3.1 TYPE OF RESEARCH

The types of research adopted for the study is **Analytical Research.**

This type of research explains the nature of certain relationships, or establishes the differences among groups or the independence of two or more factors in a situation. It could also establish cause and effect relationships, and it can also be done with both qualitative and quantitative data. This research type is adapted because the information should be forecasted and hence we need to go for the predictive analysis type and for the analysis the data requires lot of calculation so, needs the analytical type. This is the reason for adapting the Analytical Research Methodology.

At the end of the research the researcher will be able to contribute his own thoughts to the discussion by drawing some conclusions about the topic chosen, hence this study comes under analytical research.

3.2 METHOD OF DATA COLLECTION

Data Collection Methods are an integral part of the of research design. Problems research design. Problems researched with the use of appropriate methods greatly enhance the value of the research. It includes interviews, questionnaires, observations, motivational techniques such as projective tests. Here, the adopted data collection is through Observational methods, where the items are observed by the researcher and interviewing method, to identify the sales, number of orders, quantity and other details.

3.2.1 SECONDARY DATA

The Data collection method adapted here is **Secondary Data**.

Secondary data refer to information gathered from sources already existing. Such data can be internal or external to the organization and accessed through the internet or perusal recorded or published information. There are several sources of secondary data, including books and periodicals, statistical abstracts, data bases, the reports of the companies. Secondary Data Collection method is followed in this research because the data like Rupee value against other currency for past one year etc., required for the research is collected from various sources like RBI website and the details like Sales, Number of order , Currency of Trade, etc., are obtained from the company. Since the data is collected from the pre-existing data it is known to be secondary data.

3.3 PERIOD OF STUDY

The research study period is from **August 2011 – July 2012**

The Period of study is for almost an year. The research study is done for only the 11 months because these are the period where there was a very high fluctuation of rupee value. Hence, this time period is chosen as the study period of this research.

3.4 STASTICAL TOOLS USED

The tools used in this research are the **trend analysis, the percentage analysis**. Trend analysis is done to project the sales of the organisation for the next six months with the same effect as that of previous year. The research tools are used to identify the profitability of the organisation and also about the demand and supply of each product. The percentage analysis says the amount of impact of fluctuation of rupee value on the trade of the organisation. We also try to analyse on their imports and exports.

CHAPTER – 4

DATA ANALYSIS AND INTERPRETATION

PERCENTAGE ANALYSIS

TABLE NO : 4.1

SALES CONTRIBUTION FROM DIFFERENT PART OF WORLD

S.NO	COUNTRIES	SALES CONTRIBUTION (%)
1	All other Asia Pacific including Australia	13
2	All other Europe	1
3	All other Middle East	4
4	China	1
5	India	63
6	Japan	1
7	Latin and South America	1
8	Northern Africa	1
9	Russia & CIS	15

Source : Flowserve Corporation Pvt Ltd.

INFERENCE

The domestic sales is 63% and in export sales the countries like Russia & CIS contribute most (15%) and the countries from Asia contribute more (13%) than other countries.
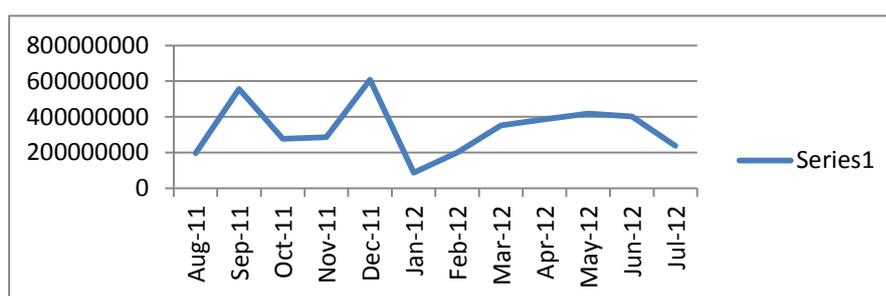
TREND ANALYSIS

TABLE NO: 4.2

SALES DATA FROM AUGUST 2011 – JULY 2012

S.No	MONTH	Sales
1	Aug-11	197086390
2	Sep-11	556387221
3	Oct-11	278118931
4	Nov-11	286854001
5	Dec-11	608846479
6	Jan-12	88599636
7	Feb-12	199932588
8	Mar-12	352529661
9	Apr-12	386964747
10	May-12	418616857
11	Jun-12	403299357
12	Jul-12	238296330

CHART NO : 4.2

**SALES DATA FROM AUGUST 2011 – JULY 2012**

INFERENCE

The sales data of the organisation for the time period (Aug-11 to Jul-12) is plotted as graph and it shows that there is downfall in the sales of the organisation in recent months to be more specific in the month of January , June and July.

TABLE : 4.3

**TREND ANALYSIS FOR NEXT SIX MONTHS (AUGUST -2012 TO JANUARY 2013)**

S.NO	MONTH	PROJECTED SALES
1	Aug-12	332399053
2	Sep-12	332056187
3	Oct-12	331713320
4	Nov-12	331370454
5	Dec-12	331027588
6	Jan-13	330684722

CHART NO : 4.3

PROJECTED TREND CURVE FOR NEXT SIX MONTHS (AUGUST -2012 TO JANUARY 2013)
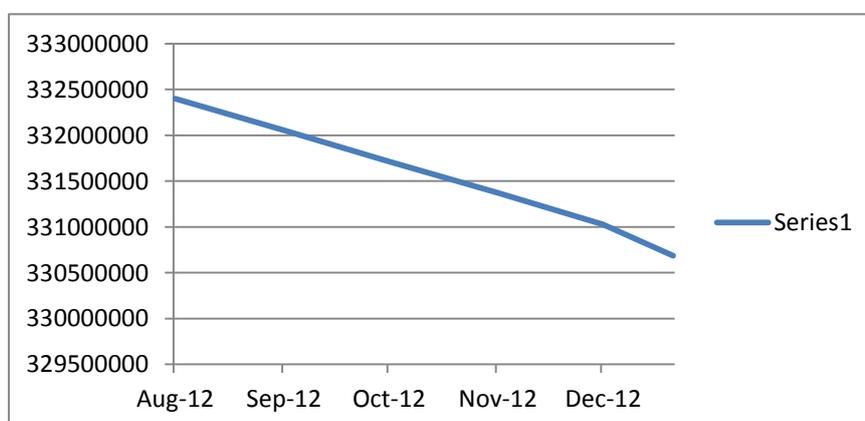
INFERENCE

The Trend analysis helps us to forecast the future sales using the current pattern. Since the current was in down-trend the projected sales was also in a downtrend. This would remain same until we make some changes to the system so, that the down-trend pattern changes.

TABLE NO : 4.4

**THE RUPEE VALUE AGAINST US DOLLARS FOR PAST ONE YEAR**

MONTH	MONTHLY AVERAGE USD VALUE
Aug-11	45.91
Sep-11	47.628
Oct-11	49.222
Nov-11	50.679
Dec-11	52.382
Jan-12	51.001
Feb-12	49.181
Mar-12	50.363
Apr-12	51.734
May-12	54.331
Jun-12	55.942
Jul-12	55.424

CHART NO : 4.4

THE RUPEE VALUE AGAINST US DOLLARS FOR PAST ONE YEAR
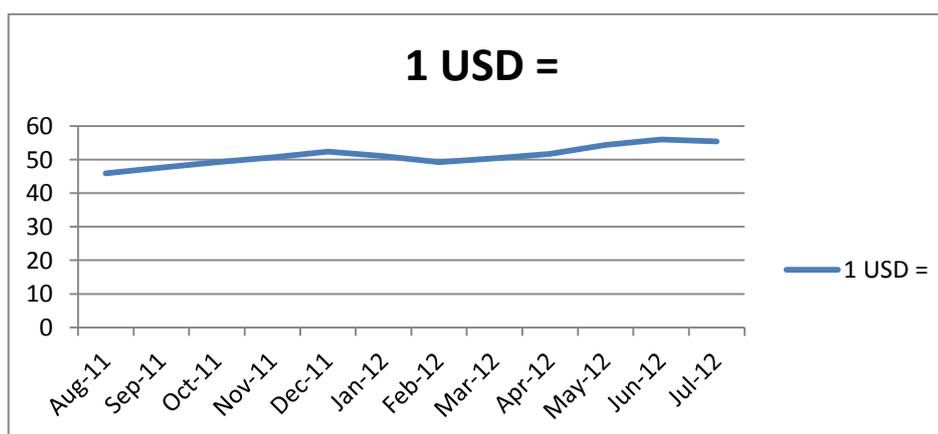
INFERENCE

The Indian rupee had appreciated and depreciated against the US Dollar in the same year. Indian Rupee has appreciated during January - 2012 and the value remained constant and it started depreciating onwards April - 2012 .

TABLE NO : 4.5

**THE RUPEE VALUE AGAINST EURO FOR PAST ONE YEAR**

MONTH	MONTHLY AVERAGE EURO VALUE
Aug-11	65.0449
Sep-11	65.4022
Oct-11	67.4627
Nov-11	68.7474
Dec-11	68.9988
Jan-12	66.0196
Feb-12	65.0702
Mar-12	66.4893
Apr-12	68.0735
May-12	69.541
Jun-12	70.1705
Jul-12	68.0642

CHART NO : 4.5

THE RUPEE VALUE AGAINST EURO FOR PAST ONE YEAR

1 EURO =
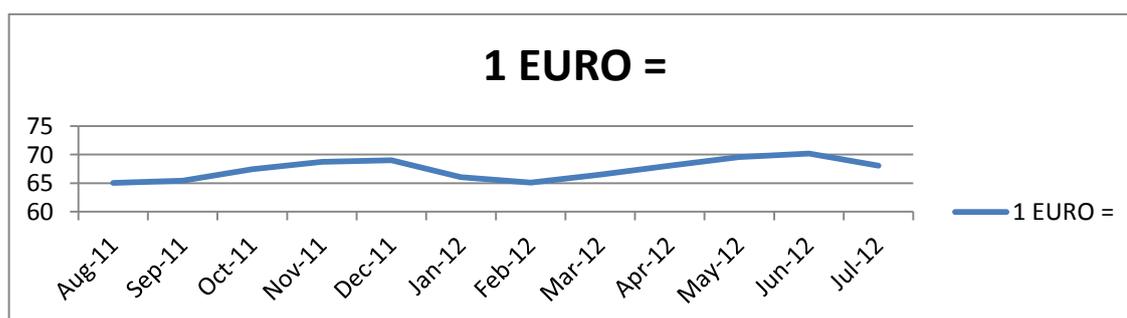
INFERENCE

The Indian rupee had appreciated and depreciated against the EURO several times in the near successive months. Indian Rupee has appreciated during January - 2012 and there is a sudden and steep depreciation from March – 2012.

TABLE NO : 4.6

THE RUPEE VALUE AGAINST CHINESE YUAN RENMINBI FOR PAST ONE YEAR

MONTH	MONTHLY AVERAGE CNY VALUE
Aug-11	7.0828
Sep-11	7.4363
Oct-11	7.71
Nov-11	7.977
Dec-11	8.2655
Jan-12	8.1072
Feb-12	7.8023
Mar-12	7.9758
Apr-12	8.2024
May-12	8.5964
Jun-12	8.7884
Jul-12	8.6882

CHART NO : 4.6

THE RUPEE VALUE AGAINST CHINESE YUAN RENMINBI FOR PAST ONE YEAR
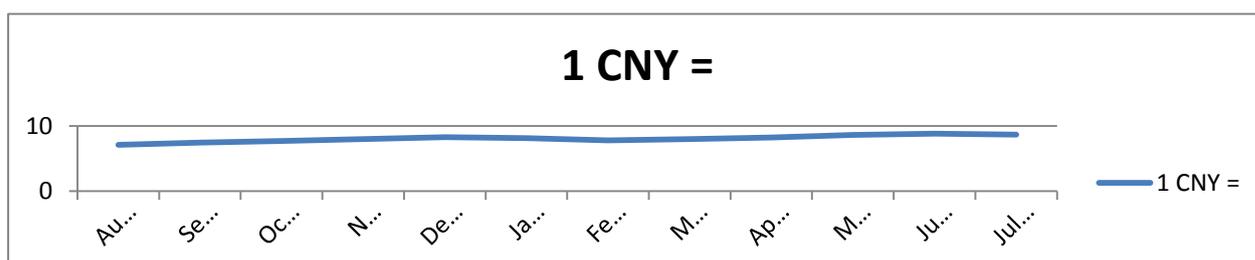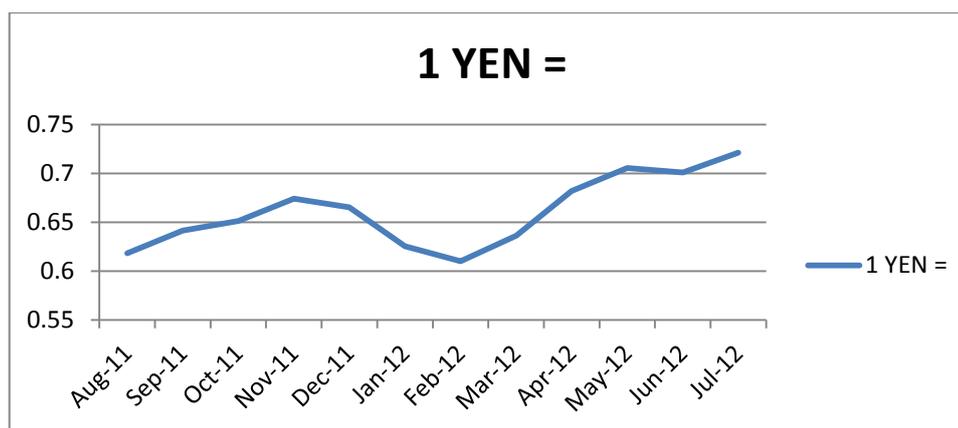

INFERENCE

The Indian rupee had appreciated and depreciated against the Chinese Renminbi in a period of 12 months. Indian Rupee has appreciated during January - 2012 and the value remained constant and it started depreciating Somewhere around middle of March- 2012 .

TABLE NO : 4.7

THE RUPEE VALUE AGAINST JAPANESE YEN FOR PAST ONE YEAR

MONTH	MONTHLY AVERAGE YEN VALUE
Aug-11	0.6183
Sep-11	0.6413
Oct-11	0.6514
Nov-11	0.6741
Dec-11	0.6653
Jan-12	0.6255
Feb-12	0.6102
Mar-12	0.6362
Apr-12	0.6821
May-12	0.7054
Jun-12	0.7009
Jul-12	0.72107

CHART NO : 4.7 THE RUPEE VALUE AGAINST JAPANESE YEN FOR PAST ONE YEAR

INFERENCE

For Past 12 months the Indian Rupee value against Japanese Yen has been Plotted in the above graph. It shows that the Rupee Value went for a steep Depreciation in the middle of June – 2012.
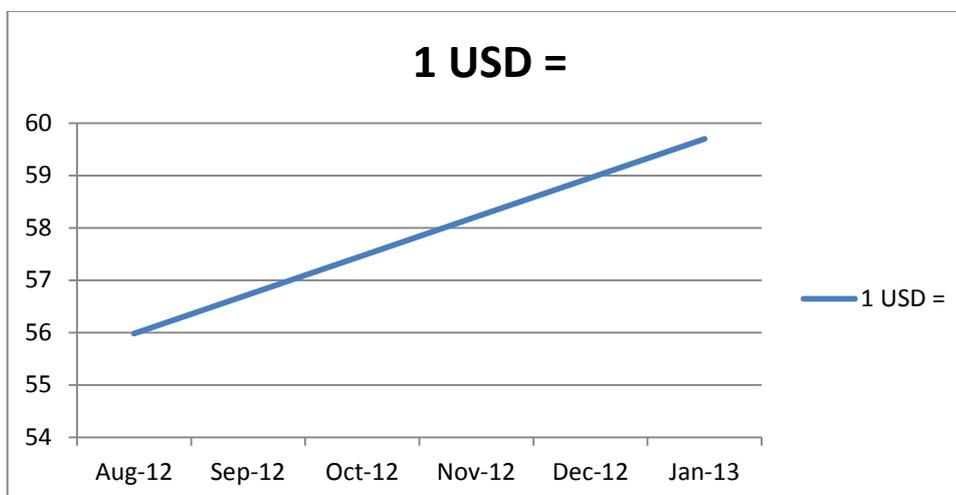
TABLE NO : 4.8

TREND ANALYSIS FOR NEXT SIX MONTHS OF US DOLLAR

MONTHS	PROJECTED MONTHLY AVERAGE USD VALUE
Aug-12	55.9825
Sep-12	56.726
Oct-12	57.4695
Nov-12	58.213
Dec-12	58.9565
Jan-13	59.7

CHART NO : 4.8

TREND ANALYSIS FOR NEXT SIX MONTHS OF US DOLLAR

INFERENCE

When we tried to project the Indian Rupee value against US Dollars the graph forecasts continuous depreciation. Though this projection may be just an extension of the depreciation of past still it may a have huge impact because in recent time the rupee value had appreciated only for 2 months and despite the fact we didn't consider any factor which affect the forex market still the depreciation is a matter of worry.
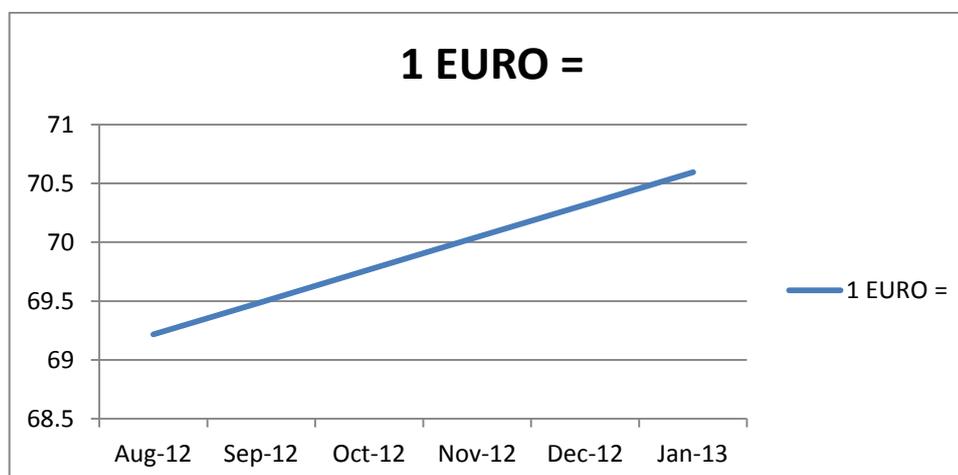
TABLE NO : 4.9

TREND ANALYSIS FOR NEXT SIX MONTHS OF EURO

MONTHS	PROJECTED MONTHLY AVERAGE EURO VALUE
Aug-12	69.2164
Sep-12	69.4922
Oct-12	69.768
Nov-12	70.0438
Dec-12	70.3196
Jan-13	70.5954

CHART NO : 4.9

TREND ANALYSIS FOR NEXT SIX MONTHS OF EURO

INFERENCE

The Indian Rupee had highly fluctuated against Euro. This may be due to several factors which affect the international forex market. The forecasting of the Indian Rupee value against Euro will continue to depreciate in the same fashion. Though the organisation has most of its transaction in US Dollars, still it be a serious issue.
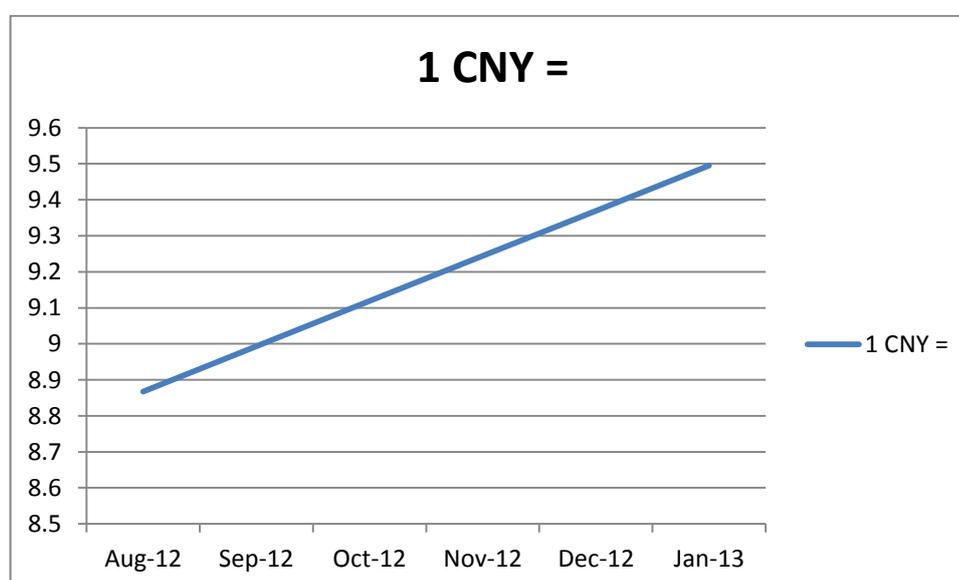
TABLE NO : 4.10

TREND ANALYSIS FOR NEXT SIX MONTHS OF CHINESE RENMINBI

MONTHS	PROJECTED MONTHLY AVERAGE CNY VALUE
Aug-12	8.8677
Sep-12	8.9931
Oct-12	9.1188
Nov-12	9.2439
Dec-12	9.3693
Jan-13	9.4947

CHART NO : 4.10

TREND ANALYSIS FOR NEXT SIX MONTHS OF CHINESE RENMINBI

INFERENCE

The upward straight line in the graph plotted shows that the rupee value is going to be depreciated in the future and to compare with past the situation is been to us and RBI had taken steps to curtail it.
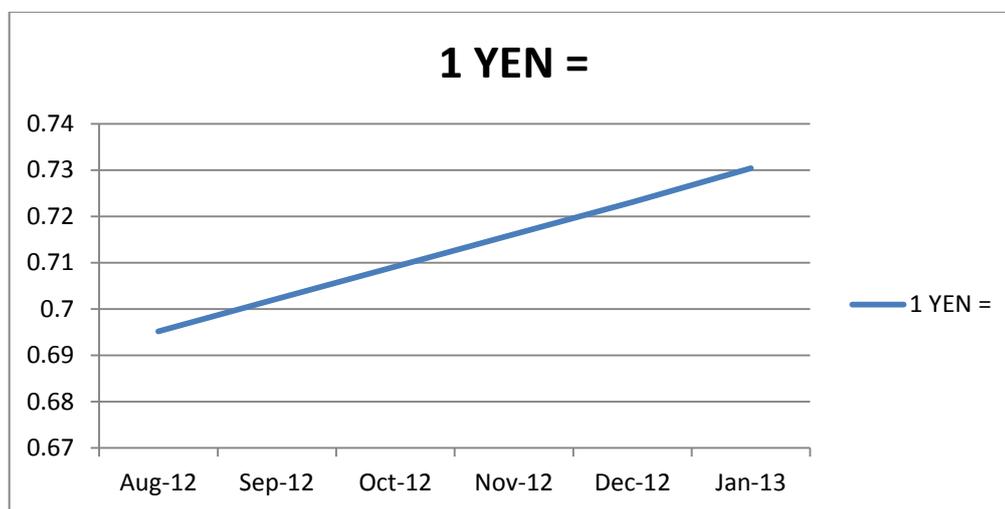
TABLE NO : 4.11

TREND ANALYSIS FOR NEXT SIX MONTHS OF JAPANESE YEN

| MONTHS	PROJECTED MONTHLY AVERAGE YEN VALUE
Aug-12	0.6952
Sep-12	0.7022
Oct-12	0.7092
Nov-12	0.7161
Dec-12	0.7231
Jan-13	0.7304

CHART NO : 4.11

TREND ANALYSIS FOR NEXT SIX MONTHS OF JAPANESE YEN

INFERENCE

Japanese Yen is a currency against which Indian rupee value will appreciate in general but now it has also started appreciating against Indian rupee value. Which means Indian rupee value will depreciate against Japanese Yen.

TABLE NO : 4.12

## THE RUPEE VALUE AGAINST VARIOUS CURRENCIES FOR ONE YEAR

MONTH	1 USD =	1 EURO =	1 CNY =	1 YEN =
Aug-11	45.91	65.0449	7.0828	0.6183
Sep-11	47.628	65.4022	7.4363	0.6413
Oct-11	49.222	67.4627	7.71	0.6514
Nov-11	50.679	68.7474	7.977	0.6741
Dec-11	52.382	68.9988	8.2655	0.6653
Jan-12	51.001	66.0196	8.1072	0.6255
Feb-12	49.181	65.0702	7.8023	0.6102
Mar-12	50.363	66.4893	7.9758	0.6362
Apr-12	51.734	68.0735	8.2024	0.6821
May-12	54.331	69.541	8.5964	0.7054
Jun-12	55.942	70.1705	8.7884	0.7009
Jul-12	55.424	68.0642	8.6882	0.72107

CHART NO : 4.12

THE RUPEE VALUE AGAINST VARIOUS CURRENCIES FOR ONE YEAR
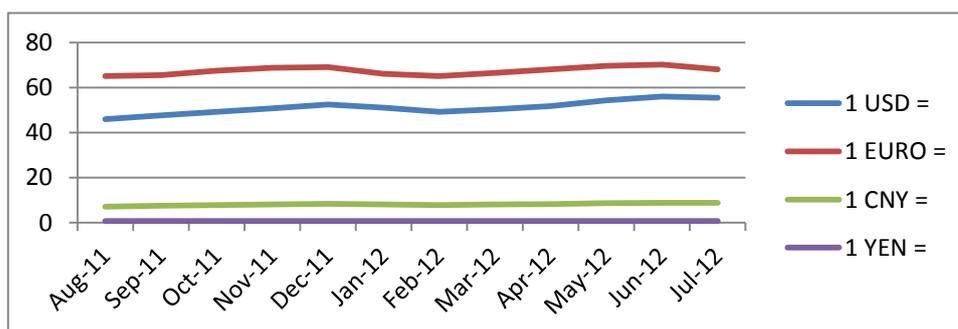
INFERENCE :

The performance of the Indian rupee against other foreign currency or the study period is plotted above. It shows that in general Indian rupee had depreciated against all currency but had appreciated against all currency during the January, February of 2012.

TABLE NO : 4.13 PROFIT AND OPERATION COST

S.No	MONTH	SALES	QUANTITY	AVERAGE SALES PER PUMP	OPERATION COST	PROFIT
1	Aug-11	197086390	275	716678	161610840	35475550
2	Sep-11	556387221	550	1011613	445109777	111277444
3	Oct-11	278118931	260	1069688	225276334	52842597
4	Nov-11	286854001	278	1031849	232351741	54502260
5	Dec-11	608846479	620	982010	517519507	91326972
6	Jan-12	88599636	190	466314	77967680	10631956
7	Feb-12	199932588	284	703988	173941352	25991236
8	Mar-12	352529661	290	1215620	292599619	59930042
9	Apr-12	386964747	273	1417453	313441445	73523302
10	May-12	418616857	260	1610065	326521148	92095709
11	Jun-12	403299357	286	1410138	330705473	72593884
12	Jul-12	238296330	268	889165	202551881	35744450

CHART NO : 4.13 PROFIT AND OPERATION COST
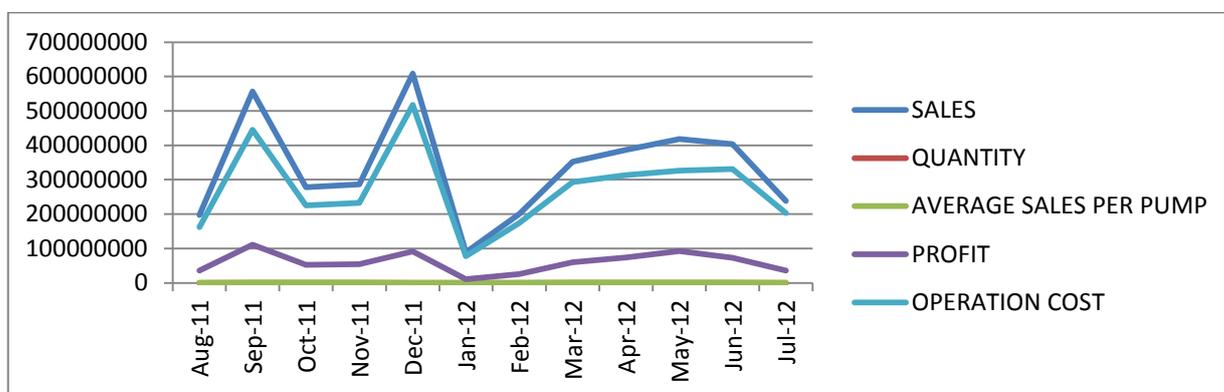
INFERENCE

The graph shows that the company has made profits during the last year and the company has made profits with their exports also and this shows that there is an impact in the trade because of the fluctuation in the rupee value.

(Note : The Sales data, profit data used is average of all varieties of pump)

TABLE 4.15

PROFIT AFTER THE EXCHANGE RATES WITH VARIOUS CURRENCY

CURRENCIES	AVERAGE EXCHANGE PRICE	AVERAGE PROFIT OF 100 PUMPS	PROFIT AFTER EXCHANGE RATE
USD	51.14975	43597	2229975.7
EURO	67.42369167	33066	2229431.8
CNY	8.052691667	276993	2230539.2
YEN	0.660980833	3356734	2218736.8

NOTE : The Sales Quantity is assumed as 100 Pumps.

CHART NO : 4.15

PROFIT AFTER THE EXCHANGE RATES WITH VARIOUS CURRENCY
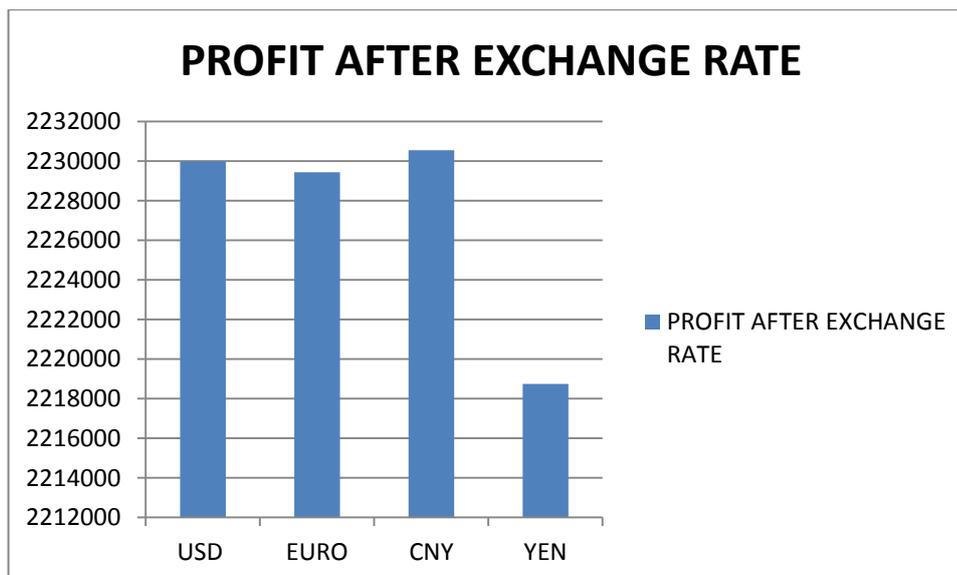
INFERENCE

This graph shows that Chinese Yuan Renminbi would fetch more profit for the same quantity of pumps (100 Pumps assumed here) when compared to other currencies. So, the company can fetch more profit through the exchange rate fluctuation if it can do the same quantity of trade.

CHAPTER - 5

FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 FINDINGS

- ❖ There is an impact on the trade due to the fluctuation in the rupee value against the other foreign currencies.
- ❖ There is a slow downfall in the sales of the organisation in the recent past and it would continue if no changes are made to the system.
- ❖ There is depreciation of Indian Rupee value against US Dollar , Euro , Chinese Yuan Renminbi, Japanese Yen.
- ❖ The fluctuation was more against US Dollars and Euro.
- ❖ 63% of the sales was generated from the domestic market and remaining 27% was generated from the sales across the world.
- ❖ US Dollar is the currency which has highly contributed to the sales.
- ❖ The Fluctuation of Indian Rupee against US Dollar had more impact on the trade of the organisation.
- ❖ The Export sales increased when there was a depreciation of rupee value and the export sales decreases when there was a appreciation of rupee value

5.2 RECOMMENDATIONS

- ❖ The company needs to make changes to stop the downfall of the sales.
- ❖ The company needs to adapt different strategies to handle domestic and export demand.
- ❖ When there is appreciation of rupee value the company do more domestic trade rather than export trade.
- ❖ When there is depreciation of rupee value the company export more and can earn more profit.
- ❖ If the company wishes to go for more export and wants to reduce the risk of being affected by exchange rates the company can fix their exchange rates against currencies which are more fluctuating.
- ❖ The demand and supply should be meet. The organisation should try to tap the resources and demand which are underutilised.

5.3 CONCLUSION

This research concludes that there is an impact in the imports and exports of Flowserve due to the fluctuation of rupee value against other foreign currencies Flowserve is a potential pump manufacturing company which is getting into rough time due to the sales decline in the near future and to increase their profit and sales the company can go for more exports with fixed exchange rates to minimise the risk. The fluctuation of Indian rupee against US Dollars had more impact on the trade. The forecasting suggested that Indian rupee will continue to depreciate against US Dollars, EURO, Chinese Yuan , Japanese Yen.

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